

Auditor-General of South Africa

# Umdoni Municipality - Audit report 2016-17

# Report of the Auditor-General to the KwaZulu-Natal Provincial Legislature and the council on Umdoni Municipality

## Report on the audit of the financial statements

### Opinion

1. I have audited the financial statements of the Umdoni Municipality as set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2017, and the statement of financial performance, statement of changes in net assets and statement of cash flows and statement of comparison of budget information with actual information for the year then ended 30 June 2017, as well as the notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Umdoni Municipality as at 30 June 2017, and its financial performance and cash flows for the year then ended in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2016 (Act No. 3 of 2016) (DoRA).

### Basis for opinion

3. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the financial statements section of this report.
4. I am independent of Umdoni Municipality in accordance with the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* (IESBA code) and the ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

### Other matter

6. I draw attention to the matter below. My opinion is not modified in respect of this matter.

### Unaudited disclosure notes

7. In terms of section 125(2)(e) of the MFMA the municipality is required to disclose particulars of non-compliance with the MFMA in the financial statements. This disclosure requirement did not form part of the audit of the financial statements and accordingly I do not express an opinion thereon.

## **Responsibilities of the accounting officer for the financial statements**

8. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with SA Standards of GRAP, the requirements of MFMA and DoRA and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
9. In preparing the financial statements, the accounting officer is responsible for assessing the Umdoni Municipality's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the intention is to liquidate the municipality or cease operations, or there is no realistic alternative but to do so.

## **Auditor-general's responsibilities for the audit of the financial statements**

10. My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
11. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report.

## **Report on the audit of the annual performance report**

### **Introduction and scope**

12. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report material findings on the reported performance information against predetermined objectives for selected development priorities presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.
13. My procedures address the reported performance information, which must be based on the approved performance planning documents of the municipality.
14. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice for basic services delivery and infrastructure development and local economic development presented in the annual performance report of the municipality for the year ended 30 June 2017.
15. I performed procedures to determine whether the reported performance information was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
16. I did not raise any material findings on the usefulness and reliability of the performance information for the selected development priorities.

## **Other matters**

17. I draw attention to the matters below. My opinion is not modified in respect of these matters.

### **Achievement of planned targets**

18. The annual performance report on pages' x to x for information on the achievement of planned targets for the year and explanations provided for the under/overachievement of a significant number of targets.

### **Adjustment of material misstatements**

19. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of basic services delivery and infrastructure development. As management subsequently corrected the misstatements, I did not identify any material findings on the usefulness and reliability of the reported performance information.

## **Report on audit of compliance with legislation**

### **Introduction and scope**

20. In accordance with the PAA and the general notice issued in terms thereof I have a responsibility to report material findings on the compliance of the municipality with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.

The material findings in respect of the compliance criteria for the applicable subject matters are as follows:

### **Annual financial statements**

21. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements of current assets, revenue, expenditure and disclosure items identified by the auditors in the submitted financial statement were subsequently corrected and the supporting records were provided subsequently, resulting in the financial statements receiving an unqualified audit opinion.

### **Procurement and contract management**

22. Some of the goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations, in contravention of by Municipal supply chain management (SCM) regulations 17(a) and (c).
23. Some of the goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by SCM regulation 19(a). Deviations were approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention of SCM regulation 36(1).
24. Sufficient appropriate audit evidence could not be obtained that construction contracts were awarded to contractors that were registered with the Construction Industry Development Board in accordance with section 18(1) of Construction Industry Development Board Act (Act No. 38 of 2000) and Construction Industry Development Board 17 and 25(7A).

## Expenditure management

25. Effective steps were not taken to prevent irregular expenditure amounting to R48,06 million as disclosed in note 42 to the annual financial statements, as required by section 62(1)(d) of the MFMA. The majority of irregular expenditure is as a result of incorrect application of the section 32 of the SCM regulations which allows the accounting officer to procure goods and services for the municipality under contract secured by other organ of state. Irregular expenditure amounting to R28,80 million was incurred on the construction of Gqolweni Road and construction of Nkombe Road key projects.
26. Money owed by the municipality was not always paid within 30 days as required by section 65(2)(e) of the MFMA.

## Strategic planning and performance management

27. The council failed to adopt an oversight report containing the council's comments on the annual report within the prescribed timelines, as required by section 129(1) of the MFMA.
28. The oversight report adopted by the council on the 2015-16 annual report was not made public, as required by section 129(3) of the MFMA.

## Other information

29. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report which includes the mayor's foreword, the accounting officer's report and the audit committee's report. The other information does not include the financial statements, the auditor's report and those selected development priorities presented in the annual performance report that have been specifically reported in the auditor's report.
30. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.
31. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected development priorities presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
32. I did not receive the other information prior to the date of this auditor's report. When I do receive and read this information, if I conclude that there is a material misstatement therein; I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to retract this auditor's report and re-issue an amended report as appropriate; however, if it is corrected this will not be necessary.

## Internal control deficiencies

33. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance thereon.

34. The matters reported below are limited to the significant internal control deficiencies that resulted finding on compliance with legislation included in this report.

### **Leadership**

35. The leadership did not adequately oversee and monitor effective implementation of the action plans to prevent non-compliance. In this regard, the recommendations made by the audit committee to address the internal control deficiencies were not addressed in good time.

### **Financial management**

36. Senior management did not review and monitor the implementation of its compliance checklist to ensure that the municipality to ensure compliance with applicable laws and regulations.

### **Other reports**

37. I draw attention to the following engagements conducted by various parties that had, or could have, an impact on the matters reported in the municipality's financial statements, reported performance information, compliance with applicable legislation and other related matters. These reports did not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation.
38. At the request of the municipality an independent party is conducting a criminal investigation into possible misappropriation of the municipality's assets. This investigation was still in progress at the date of this report.
39. At the request of the municipality, KZN COGTA initiated an investigation into the use of the section 32, the section which allows the accounting officer to procure goods and services for the municipality under contract secured by other organ of state. This investigation was still in progress at the date of this report.

*Auditor General*

Pietermaritzburg

30 November 2017



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## **Annexure – auditor-general's responsibility for the audit**

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements, and the procedures performed on reported performance information for selected development priorities and on the municipality's compliance with respect to the selected subject matters.

### **Financial statements**

2. In addition to my responsibility for the audit of the financial statements as described in the auditor's report, I also:
  - identify and assess the risks of material misstatement of the financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
  - obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control
  - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting officer
  - conclude on the appropriateness of the accounting officers use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Umdoni Municipality ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial statements. My conclusions are based on the information available to me at the date of the auditor's report. However, future events or conditions may cause a municipality to cease continuing as a going concern
  - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation

### **Communication with those charged with governance**

3. I communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.
4. I also confirm to the accounting officer that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and, where applicable, related safeguards.